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3 INTRODUCTION TO THE EMPIRICAL PAPERS

3.1 INTRODUCTION

The two preceding introductory chapters explained the importance of FDI in today's globalizing economy, and highlighted that much additional research is still required in order to fully understand the effects of FDI on the nations and peoples affected by it. The main theme therefore of this dissertation concerns the consequences of FDI for sustainable development. This is not the first study in this area, nor will it likely be the last. Globalization is as of yet 'a poorly understood phenomenon' (Rugman and Verbeke, 2004:3), and more research is vital if we want to come to policy recommendations on how to deal with globalization, on predicting how the future of globalization looks like, and on the exact role of MNEs in that process.

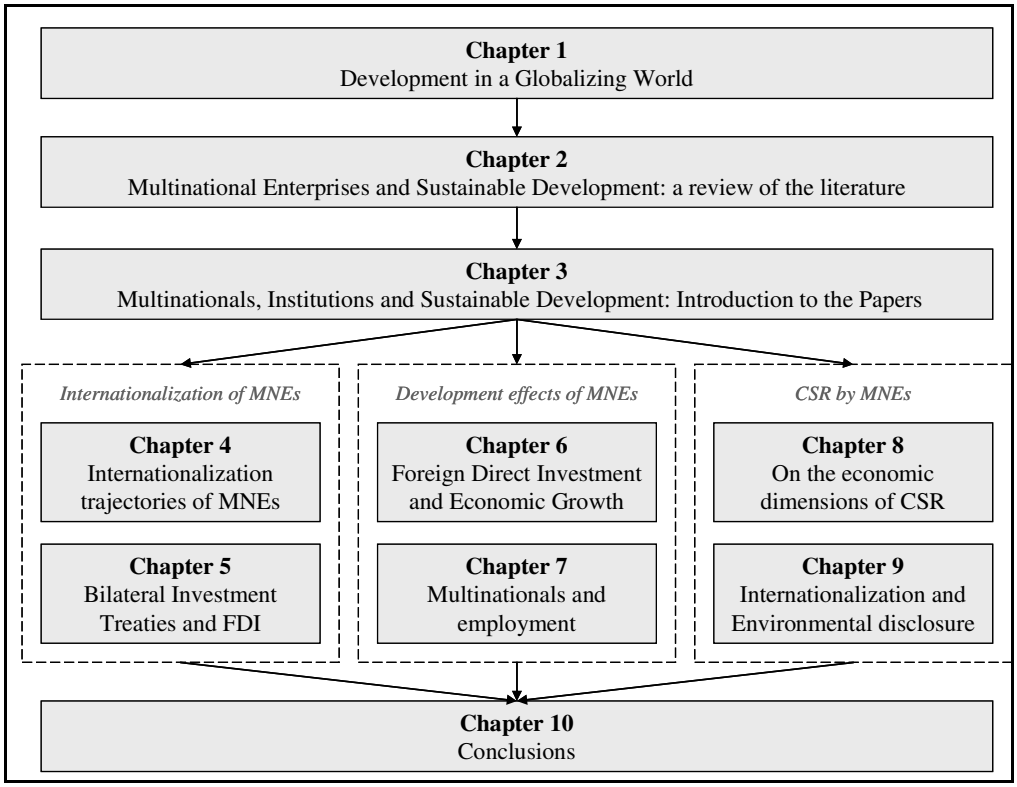
Globalization in itself is an extremely multifaceted concept, and even if it is narrowed down to FDI as in the present study, many themes and issues related to both the determinants, nature and effect of FDI require further analysis. This thesis analyzes several of these issues, embedded within the framework of the most recent insights from development theory (or what has been called 'the New Development Paradigm'). These insights suggest that future research should include a wide range of development indicators measuring all kinds of dimensions of sustainable development, and focus on the (active) roles that the various actors can and do play in the development process. Within this process, also the role of institutions – as shapers and determinants of MNE strategy and as moderator of the FDI-development relationship – takes centre stage. These considerations have led to three main research questions (see chapter 1):

1. *To what extent and in what way do home, host, and international institutions, and firm-specific factors, influence FDI and the internationalization of MNEs?*
2. *To what extent is the effect of FDI for sustainable development dependent upon the characteristics of that MNE, in particular its home country institutional context?*
3. *What do MNEs actively do themselves to enhance their sustainability impact, and how are these activities influenced by firm characteristics and the institutional contexts in which they operate?*

3.2 THE EMPIRICAL PAPERS

These three main research questions are addressed in this dissertation in a series of six empirical papers, where each research question is taken up by two papers (see figure 3.1). The first of each of the sets is more explorative (chapters 4 and 8) or general (chapter 6) in nature, whereas the second is more strongly focused on testing theoretically-derived hypotheses (chapters 5 and 9) or examining issues in more detail (chapter 7).

Figure 3.1 Overview of the dissertation



The first two papers analyze how economic globalization (through FDI) comes about. In particular, attention is paid to how the institutional context in which MNEs operate affects their internationalization strategies. The first paper (chapter 4) starts at the firm level. In an explorative study, the paper identifies the various different internationalization trajectories that MNEs have followed since 1990. Despite the substantial amount of IB research, it remains remarkably unclear how, at the corporate level, firms expand and withdraw their international activities over time, primarily due to notorious difficulties in gathering and comparing reliable longitudinal internationalization data. Chapter 4 addresses this issue and presents a unique longitudinal dataset (1990-2004) on internationalization strategies of more than 300 of the largest MNEs worldwide. Data for this paper have been manually collected directly from company sources (annual reports). This method made it possible to gather a dataset that is substantially more complete and accurate than any other secondary data source available, and allows for a more detailed treatment of different measurement methods. In addition to identifying a wide variety of internationalization trajectories, the home country and sector determinants of such patterns are explored in this chapter.

The second paper (chapter 5) further explores the determinants of internationalization, using data at the macro-level of analysis. It explains the amount of bilateral FDI stock between 1990 and 2004 among over 3000 country dyads, paying particular attention to the effect of Bilateral Investment Treaties (BITs) in influencing these capital flows. In

absence of any multilateral agreements, BITs are the only international institution specifically designed to regulate FDI. As yet, there are still only very few papers on this topic and the present study contributes to the debate on the effects of BITs on FDI by 1) analyzing not only developed-developed, or developed-developing country data, but especially also developing-developing country data, the object of more than half of the BITs, and 2) examining how the effect of BITs may be different in different home and host country context (including e.g. institutional quality and natural resource endowments).

The second set of empirical papers focuses on the second research question, analyzing the sustainable development effects of inward (and to a lesser extent, also outward) investment for host countries. Chapter 6 starts by exploring the effect of FDI on host country economic growth – one of the more traditional research questions in the debate on the sustainable development effects of FDI. As chapter 2 indicated, although recent studies examined a variety of host country factors that moderate this relationship, few have yet extensively addressed the moderating role of the characteristics of FDI, and how they interact with host country conditions. Chapter 6 addresses this issue by analyzing the different growth consequences of FDI from various countries of origin, hereby addressing the role of home country institutions in explaining the development impact of FDI. The paper uses a dataset on bilateral investment stocks from six major outward investors towards 71 countries for the 1989-2002 period.

Whereas chapter 6 focuses on the economic impacts of FDI at the macro-level, chapter 7 uses micro-level evidence in an in-depth study of the effect of both inward and outward investment on employment in the Dutch economy. The Netherlands provides a very interesting context as one of the few countries where both substantial inward and outward investment (and both large domestic and foreign MNEs) is present. Using a set of detailed data on over 60,000 employees, comparisons are made on a range of wage and labour condition indicators that are unavailable in other household or establishment surveys that previously supplied data for such analyses. Both the direct effects on wages and labour conditions of working for an MNE are addressed, as are the indirect effects (linkages, competition).

The third and final set of empirical papers deals with what MNEs themselves have to say about their potential impact on sustainable development, and about the ways in which they try enhance it. Chapter 8 analyses in detail the statements that MNEs make in their non-financial reports on their potential economic impact on host countries through technology transfer, linkage creation, and sheer size effects. An in-depth analysis of the contents of the non-financial reports by the Fortune Global 250 (2004) firms explores to what extent disclosure on economic impact differs by firm characteristics such as size, sector or country of origin.

The sixth and final empirical paper (chapter 9) also analyzes the extent of voluntary disclosure by the Fortune 250 firms (2001), but now focuses on environmental reporting. In addition to relating various dimensions of internationalization to occurrence and level of detail of reporting, the chapter gives substantial theoretical and empirical attention as

to how institutional pressures both at home and abroad combine and interact to influence the likelihood and extent of disclosure.

Together, these papers address a wide variety of issues ranging from questions like how globalization via FDI comes about, what determines the effects of MNEs on sustainable development, to how MNEs respond themselves to their increased (imposed) responsibility in the development process. A broad range of data and research methods is used: from primary data (annual reports, questionnaires), to use of secondary data (FDI), and to detailed content analysis (sustainability reports). In addition, the papers address a variety of dimensions of sustainable development, dealing alternately with the economic, social or environmental dimensions of development.

The conclusions of these papers may therefore appear to be difficult to unite. However, the combined value of the papers in drawing conclusions on the consequences of FDI for sustainable development is more than the sum of its parts, as shown in the concluding chapter of this dissertation (chapter 10). One element that contributes to the coalescence of the papers is that for all the papers that deal with firm level data (chapters 4, 8 and 9) the sets of firms that is analyzed largely overlap: many of the firms that are in the Fortune 250 firms of the final two papers are also included in the list of the largest firms that is analyzed in the first paper (chapter 4), as all involve the largest firms worldwide. Many of the employees that are studied in chapter 7 that work at international firms (either Dutch or foreign) also often work for one of these large firms. Even with respect to papers that analyzed FDI at the macro-level (chapters 5 and 6), it is important to realize that as the largest 500 MNEs are responsible for the overall majority of FDI flows – estimates are at 80 percent (Rugman, 2000) – many of the conclusions of these papers can also be linked to the micro-papers. Hence, while addressing a range of issues and topics, the key harmonizing theme in this dissertation is that each of the papers deals with the same relatively small set of large MNEs that are the major drivers of globalization through FDI.